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INFO RUEHAK/AMEMBASSY ANKARA PRIORITY 0626
RUEHBJ/AMEMBASSY BEIJING PRIORITY 0186
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COMMERCE FOR ITA/OTEXA D'ANDREA
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TAGS: [ECON](#) [ETRD](#) [KTEX](#) [EG](#)

SUBJECT: EGYPTIAN TEXTILE PRODUCTION INCREASING DESPITE
CHINESE COMPETITION

REF: A. STATE 114799

[1](#)B. CAIRO 2887

[1](#)1. (U) SUMMARY: Despite increasing competition from China, the Egyptian textile and apparel industry is growing robustly thanks to Egypt's preferential trade agreements with Europe, the United States, and Turkey, as well as rising costs among its regional competitors. This message responds to Ref A questions on the state of the textile and apparel industry in the face of increasing international competition. END SUMMARY.

[1](#)2. (U) Total Egyptian industrial production in FY2005-06 was valued at \$16.9 billion, according to a study by the American Chamber of Commerce in Egypt. Egyptian textile and apparel production accounted for \$1.7 billion, a little more than 10 percent of total industrial production.

[1](#)3. (U) Textiles and apparel represented 5.5 percent of Egyptian exports and 2.6 percent of Egyptian imports during that period, compared with 5.2 percent of exports and 2.9 percent of imports during the first half of FY2006-07. Excluding oil and natural gas, textiles and apparel accounted for 12.4 percent of exports and 3.2 percent of imports in FY2005-06, compared with compared with 9.7 percent of exports and 3.3 percent of imports during the first half of FY2006-07.

[1](#)4. (U) While the sector's share of Egyptian exports has not changed significantly, textile and apparel exports are increasing along with other Egyptian exports, said Mohammad Kassem of the Egyptian Chamber of Textile Industries. Egyptian textile and apparel exports increased 21 percent in 2006 and another 14 percent in 2007, compared to the same period in 2006, he said.

[1](#)5. (U) About one million Egyptians work in the textile and garment industry, including relatively well-paid workers in export-oriented factories as well as idle employees of inefficient state owned-enterprises. Up to 24,000 workers at one of Egypt's largest public textile factories have been on strike since September 23 demanding unpaid bonuses, pay increases, and changes in company and factory union leadership (ref B).

[1](#)6. (U) Egyptian textile and apparel exports to the United States were valued at \$819 million in 2006, according to the US Census Bureau. In the first half of 2007, Egyptian

textile and apparel exports to the United States had already reached \$539 million. The increase is due largely to increasing exports under the Qualified Industrial Zone (QIZ) agreement granting duty-free status to Egyptian exports that include 11.7 percent Israeli content. QIZ exports, which are almost exclusively in ready-made garments, were valued at \$627 million in 2006 and \$349 million in the first half of 2007.

17. (U) According to Kassem, Chinese competition has forced Egypt out of export markets for exporting apparel categories in which China does not face export quotas and Egypt does not enjoy trade preferences. "No one has a chance to survive in these categories." But in categories in which China still faces quotas in the United States and Europe, such as knit tops and bottoms, Egypt remains competitive.

18. (U) Kassem reports that smuggling of Chinese textiles into Egypt is a significant problem. Earlier this year the GOE reduced tariffs on textiles from 30 percent to 5 percent, and on fabrics from 45 percent to 12 percent, as part of efforts to reform trade policy and reduce the incentive for smuggling. However, sales taxes, fees, and the remaining tariffs still add nearly 40 percent to the price of legally imported textiles, leaving a significant incentive for smuggling.

19. (U) Despite the challenges, Egypt is attracting foreign investment in the garment and textile industry. As regional competitor Turkey faces rising labor costs, Turkish garment manufacturers are moving operations to Egypt to take advantage of preferential trading arrangements with Europe, Africa, and the United States. Egypt is also better equipped than garment factories in Tunisia and Morocco to meet buyers'

increasing preference for certain types of packaging.
JONES